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September 16, 2005

AGENDA ITEM 9

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** FY 2004-2005 Annual Plan (Fourth Quarter Update)
- II. PROGRAM:** Systemwide
- III. RECOMMENDATION:** Approve the fourth quarter update of the 2004-2005 Annual Plan. Upon approval, transmit the fourth quarter update of the 2004-2005 Annual Plan to the Joint Legislative Budget Committee, Fiscal Committees of the Legislature, the State Controller, and the Department of Finance in accordance with the Budget Act of 2004; and the Legislative Analyst's Office and the State and Consumer Services Agency.

IV. ANALYSIS:

The fourth quarter and final update of the 2004-2005 CalPERS Annual Plan is presented for your approval. The 2004-2005 Annual Plan reflects the first year objectives of the current Three-Year Business Plan (Attachment I). This plan sets the CalPERS business direction and contains the major business objectives for the next three years.

This fourth quarter report reflects the progress and status of the Annual Plan and Three-Year Business Plan (Attachment I) through June 30, 2005. The report also highlights both Board reportable projects (Attachment II) and business plan objectives achieved.

The information contained in this agenda item will be transmitted to the entities stated above in accordance with control language included in the Budget Act of 2004. This transmission will take place upon approval of this agenda item by the Committee and Board of Administration. A draft transmittal letter is attached for your review (Attachment III).

All three major projects have been completed. Major project highlights include the following:

Benefits Management

Objective #9 -- Implement a Health Benefits Program design that provides the best value and service for all enrollees and is responsive to market.

- ❑ **Health Care Decision Support System (HCDSS):** The HCDSS enables CalPERS to negotiate health plan premiums, develop specialized care management programs, and analyze health care costs and utilization by employer as well as assist in the development and procurement of new health benefit options and insurance products. The system allows CalPERS to have a broader range of data available to negotiate health premiums, model a variety of health care services, measure the effectiveness of various health/disease management programs, and investigate new health related benefits.

The HCDSS assisted CalPERS in negotiating the 2005 health plan premiums. It will also assist in analyzing health costs as well as developing and procuring new health benefit options.

Asset and Benefit Obligations Management

Objective #10 -- Achieve long-term performance returns that meet or exceeds policy targets.

- ❑ **Straight Through Processing:** Straight Through Processing (STP) gives CalPERS the ability to seamlessly pass trading information among disparate applications within a firm as well as globally to trading partners, exchanges, depositories, clearing agents, custodians, and other securities participants. In alignment with securities industry standards for STP, CalPERS' internal investment processes for the fixed income and equities asset classes are now automated through the entire trade cycle.

To ensure CalPERS remains a leader in the financial community, the STP Project has brought about a reduction in manual processes, significantly reduced redundant work efforts, and facilitated near real-time exception processing. These more efficient processing systems will ensure compliance with any future securities industry compressed settlement process and allow CalPERS to remain competitive.

- ❑ **Pension Fund Risk Measurement System:** The implementation of the risk management system allows the Asset Allocation/Risk Management Unit to achieve an enterprise wide view of the investment and risk profile at CalPERS and to increase return on risk taken and

establish an appropriately focused risk culture. The system delivers weekly and/or daily risk reports to investment decision-makers and provides enhanced opportunities for additional investment returns. The system design provides flexibility and scalability to grow with CalPERS' future requirements.

Staff once again put forth a tremendous effort to meet the aggressive project schedules during the past fiscal year. The Annual Plan, however, represents only a portion of the 2004-2005 accomplishments. Several other division initiatives that support customer service improvements, technological advancements, and increased productivity were also completed during the year. Most importantly, the Annual Plan project accomplishments could not have been achieved without the tireless efforts of staff who are responsible for maintaining the day-to-day operations of answering questions, calculating retirement benefits, processing payrolls, delivering the mail, and so much more.

V. STRATEGIC PLAN:

The Three-Year Business Plan documents business priorities during Fiscal Years 2004-2005 through 2006-2007 that leads toward the achievement of the CalPERS Strategic Plan. The Annual Plan documents the progress of achieving specific business objectives.

VI. RESULTS/COSTS:

Cost and resource needs associated with the projects and other activities identified in the Three-Year Business Plan were approved as part of the CalPERS 2004-2005 budget.

Staff is available to answer any questions.

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